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SUBJECT: BRAZIL CORRUPTION SCANDAL UPDATE, WEEK OF 24-28
OCTOBER 2005

REF: BRASILIA 2820 AND PREVIOUS

1. SUMMARY. The Lula government's hopes that the political crisis of the past five months will abate before the onset of next year's campaign season were dampened by the week's events, which suggest scandal investigations will roil on for the foreseeable future. Delays in the final judgment on expulsion from Congress of former minister Jose Dirceu are giving rise to frustration, although that result is not in much doubt. Delicate issues continue to be raked over by the congressional investigatory committees without great signs of progress. And the opposition now seems bent upon pursuing a more aggressive approach to these inquiries as far into the new year as possible. END SUMMARY.

ETHICS COMMITTEE TO EXPEL DIRCEU, SUPREME COURT INTERFERES

2. The defense of Lula's former chief of staff, Jose Dirceu, suffered two sharp setbacks in the Chamber of Deputies this week. But a subsequent Supreme Court decision could conceivably further delay the definitive vote on impeachment proceedings against him by the whole Chamber. On October 26 the Chamber's Constitution and Justice Committee rejected, 39 votes to 15, a motion by Deputy Darci Coelho, which argued that the case against Dirceu should be overturned because the original plaintiffs (the PTB and former Deputy Roberto Jefferson) had since withdrawn their charges. In addition, on October 27, the Ethics Committee approved Deputy Julio Delgado's report recommending Dirceu's impeachment, by an overwhelming 13 to 1 margin. The vote in the Ethics Committee had been previously delayed by a series of procedural maneuverings and appeals undertaken by Dirceu and his lawyers. With the approval of Delgado's report by the Ethics Committee, the final step in the impeachment process was to be a full floor vote, which had already been scheduled for November 9. But it may now be delayed again because of a subsequent Supreme Court decision favoring the defendant, at least temporarily, on technical grounds.

3. Before the Ethics Committee voted on Dep. Delgado's recommendation, Dirceu had filed various appeals with the STF, one of which aimed at overturning the proceedings against him on grounds that Delgado unduly employed confidential information obtained by the Congressional

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Inquiry Committees (CPIs) in his report. On October 26, Supreme Court Justice Eros Grau partially accepted this contention. He did not order the termination of the proceedings, but he required that the report be reformulated to remove the questionable references and then reintroduced within the Ethics Committee. In order to avoid further delays, Delgado decided to merely drop some parts of his report in which such information was directly cited. But, on October 27 -- just after that version of the report had successfully passed, 13-1 -- the Justice released a note stating that deletion of a few paragraphs did not constitute the reformulation previously required. Hence the vote on it was invalid.

4. The president of the Ethics Committee expressed frustration with the court's opinion -- which he considered "undue interference by the judiciary branch in legislative affairs". But he accepted annulment of the vote and promptly scheduled another session for Monday, October 31 -- at which time a freshly reformulated report will be submitted. It is likely that Deputy Angela Guadagnin, Dirceu's sole ally on the Committee, will again assert her right to study the new version -- which would delay a vote into the following week. If the Ethics Committee does not vote the report by the end of that time, the decisive plenary balloting -- presently set for November 9 -- might have to be postponed. In the face of this ongoing tactical maneuvering, the Committee will now have to work hard to keep to its schedule. Whatever the exact day of reckoning may eventually be, it cannot be delayed much longer and will almost certainly result in Jose Dirceu's expulsion. But his unwillingness to concede defeat aggravates an already contentious climate in Congress.

A WEEK OF CONFRONTATIONS IN THE CPIs

15. During this week the Congressional Investigatory Committees (CPIs) continued their work -- providing an addictive product for Brazilian television audiences. The main event of hearings of the CPI on corruption in bingo operations and municipal governments was a long-awaited, face-to-face confrontation between the brothers of the mayor of Santo Andre, Celso Daniel -- who was murdered under suspicious circumstances in January of 2002 -- and Lula's present personal chief-of-staff, Gilberto Carvalho. In a previous testimony before the CPI, Daniel's brothers had affirmed that shortly after Mayor Daniel's murder, Carvalho told them about a corruption scheme to funnel payoffs on municipal contracts to PT campaign coffers. They also said that Carvalho confessed his involvement in the scheme, together with that of Celso Daniel and other high-level PT members, including Jose Dirceu. The Daniels' brothers' testimony was a reiteration of charges they have made for some time about involvement of Carvalho and Dirceu in corruption activities by the PT that the brothers assert may have been linked to their Celso Daniel's abduction and murder. Carvalho and Dirceu have repeatedly denied the allegations, and Dirceu stated he would sue the Daniel brothers for slander. The purpose of the confrontation was to shed light on the true facts of the case by bringing these adversaries together in front of the panel. It did produce some dramatic and emotional moments, but both sides stuck firmly to their previous stories. Lula had reportedly been concerned about the prospect of his present chief of staff giving testimony, but Carvalho did well enough to keep his job and nothing said in the session incriminated the President directly.

16. In the "Mensalao" (vote-buying) CPI, a similar confrontation was held on October 27 between some prominent recipients of illegal funding -- former PL president, Valdemar Costa Neto; the ex-treasurer of that party; and a PP staffer/conduit, Joao Claudio Genu -- and those that provided it -- former PT treasurer, Delubio Soares; bagman-businessman, Marcos Valerio, and Simone Vasconcelos, one of Valerio's employees. The purpose of the session was to clarify the exact amount of money that was actually transferred and how/by whom it was effected. Some interesting details emerged, but much of the testimony proved contradictory, with the receivers claiming they had gotten much less than the providers said they had given out. This pattern considerably irritated some of the congressmen conducting the inquiry -- leading to both intra-mural bickering and harsh words against the witnesses, as well as the government. Nonetheless, the open affirmations by the witnesses of the existence of extensive illegal campaign funding activities caused a few indignant opposition legislators to again call for banning of the PT party from elections for electoral crimes and consideration of impeachment investigations of President Lula for any possible responsibility in the illicit funding.

17. Late in the week PSDB party president Eduardo Azeredo resigned from that post after news stories seemed to lend credibility to charges that he had engaged in campaign finance practices (during his unsuccessful 1998 bid for the governorship of Minas Gerais) uncomfortably similar to those his party is alleging against the PT and the Lula government. But this seems to be a decision intended to partially take his case off the table so that the PSDB-led opposition can (per paragraph above) perhaps increase pressure against the incumbent administration in the run-up to next year's elections. In this regard, the Bingo CPI has already authorized prolongation of its activities until April. PSDB spokesmen have begun demanding establishment of a new one focused specifically on illicit fund-raising practices during the 2002 and 2004 elections. And criminal indictments that could lead to long trials are now possible against Delubio Soares, Marco Valerio and even legislators involved with them, who -- through resignation or impeachment -- have lost, or will lose, their congressional immunity.

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